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NOMINATIONS OF ALAN WOODS AND PAUL FREEDENBERG

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF

ALAN WOODS TO BE DEPUTY U.S. TRADE REPRESENTATIVE
PAUL FREEDENBERG TO BE ASSISTANT SECRETARY OF COMMERCE

OCTOBER 8, 1985

Printed for the use of the Committee on Finance



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CONTENTS

NOMINEES

	Page
Alan Woods, nominee for Deputy Trade Representative	5
Paul Freedenberg, nominee for Assistant Secretary of Commerce for Trade Administration	21

PUBLIC WITNESSES

Senator Jake Garn, a U.S. Senator from Utah	16
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ADDITIONAL INFORMATION

Committee press release	1
Letters from the Office of Government Ethics	2, 3
Prepared statement of Alan Woods	6
Resume of Alan Woods	8
Prepared statement of Paul Freedenberg	17
Resume of Paul Freedenberg	19

TO CONSIDER THE NOMINATION OF ALAN WOODS TO BE DEPUTY U.S. TRADE REPRESENTATIVE AND PAUL FREEDENBERG TO BE ASSISTANT SECRETARY OF COMMERCE

TUESDAY, OCTOBER 8, 1985

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Bob Packwood (chairman) presiding.

Present: Senators Packwood, Danforth, Chafee, and Baucus.

[The press release announcing the hearing and the letters of the U.S. Office of Government Ethics follow:]

[Press Release]

FINANCE COMMITTEE SETS HEARING ON USTR, COMMERCE NOMINATIONS

The Senate Committee on Finance will consider the nominations of two Reagan Administration appointees to the Office of the United States Trade Representative and the Department of Commerce in a hearing on October 8, Chairman Bob Packwood (R-Oregon) said today.

The hearing is scheduled to begin at 9:30 a.m., Tuesday October 8, 1985, in Room SD-215 of the Dirksen Senate Office Building in Washington.

Scheduled for review by the Committee are the nominations of Alan Woods, to be Deputy U.S. Trade Representative, and Paul Freedenberg, to be Assistant Secretary of Commerce for Trade Administration.

Alan Woods, 39, is a native of Missouri, and currently is President of the International Service Corporation in Washington. He previously was Vice President of technology for Sears World Trade and from 1977 to 1983 was Vice President of DGA International in Washington.

Mr. Woods also has been Assistant Secretary of Defense for Public Affairs during the Ford Administration, was Chief of Staff to the Governor of Missouri and was Assistant Press Secretary to the President.

Paul Freedenberg, 42, and a native of Chicago, currently is an Economist on the Majority staff of the Senate Banking Committee. He has been employed on Capitol Hill since January 1976.

Mr. Freedenberg also has been an instructor on the staffs of Tulane University in New Orleans and at the University of Chicago, where he received his PhD in international relations.

United States of America
**Office of
Government Ethics**

Office of Personnel Management
Washington, D.C. 20415

SEP 19 1981

Honorable Robert Packwood
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

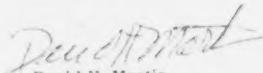
Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Michael Alan Woods, who has been nominated by President Reagan for the position of Deputy United States Trade Representative.

We have reviewed the report and have also obtained advice from the Office of the United States Trade Representative concerning any possible conflict in light of the Office's functions and the nominee's proposed duties. Mr. Woods has agreed that upon confirmation he will take steps to sell those securities held in his IRA and to invest the proceeds in assets with which he will have no actual or apparent conflict in carrying out his official duties.

Based on these representations, we believe that Mr. Woods is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,


David H. Martin
Director

Enclosure

United States of America
**Office of
Government Ethics**

Office of Personnel Management
Washington, D.C. 20415

SEP 24 1985

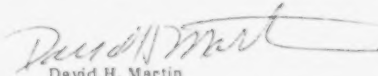
Honorable Robert Packwood
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Ronald E. Robertson, who has been nominated by President Reagan for the position of General Counsel, Department of Health and Human Services.

We have reviewed the report and have also obtained advice from the Department of Health and Human Services concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Robertson is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,


David H. Martin
Director

Enclosure

The CHAIRMAN. The hearing will come to order, please.

Last night Senator Dole called a meeting of the Republican conference at 9:30 this morning on the subject of the debt ceiling and the Gramm-Rudman-Hollings amendment, and I think most of the members except for Senator Danforth have gone to that meeting, and I know Senator Danforth in addition has to chair a Commerce hearing at 10 o'clock this morning.

But I am also aware you would like to make a few comments about Alan Woods.

Senator DANFORTH. Mr. Chairman, I would.

I am delighted to be here and see a constituent of mine, Alan Woods. He is a person I have known for a long time. He has known Kit Bond, who is our former Governor, I guess all of his life; they went to school together, they were both raised in Mexico, MO, which is in the north-central part of our State.

Alan has a distinguished career of public service. He was in the State government during the first administration of Governor Bond. He then, as his résumé points out, came to Washington. He had some very responsible positions in the administration. In the late 1970's he was Assistant Secretary of Defense for a time, and now he is returning to Government to become the Deputy USTR.

Alan is a quick study. He is a person of enormous natural ability and talent. And he also is a very easy person with whom to deal. I have certainly found that out both in State government and in the Federal Government, and I have no hesitation whatever in giving him a strong recommendation for this position.

The CHAIRMAN. Senator Chafee, do you have any opening comments?

Senator CHAFEE. Mr. Chairman, I do not, except to say just in looking over this résumé that Mr. Woods certainly has served his Nation and contributed for some time to this country. Those of us who are in public service like to see other people who have been in public service, and you certainly have been in this game for quite a while. Based on the high recommendation of Senator Danforth, I think you've really got a running start toward confirmation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Clearly, Mr. Woods, the position that you are being recommended for, and that of Mr. Freedenberg to be Assistant Secretary of Commerce, are both critical positions today—not just substantively but politically, and you are well aware of that. Frankly, I am delighted to have two people coming along who have some political background in these subjects. Terms are cast about, fair trade is called unfair trade, and on occasion there are charges made that the President doesn't enforce the laws, and somebody else will say, "There are no laws to be enforced; he needs more power." It is a very confusing and political and sensitive issue, and I have a feeling that both of you will be up before this committee on a number of occasions—maybe sometimes when you haven't wished you were coming up.

Do you have any opening statement?

Mr. Woods. I do have an opening statement that I submitted for the record, and I will summarize it, if you would like.

The CHAIRMAN. Talk loud, right into the microphone. That is the first thing you learn when you speak before this committee.

Mr. WOODS. All right, Senator. Thank you.

**STATEMENT OF ALAN WOODS, NOMINEE FOR DEPUTY U.S.
TRADE REPRESENTATIVE**

Mr. WOODS. Thank you, Mr. Chairman. It is an honor and pleasure to appear before this committee as the President's nominee to be Deputy USTR.

If confirmed, I will endeavor to live up to the high personal and professional standards expected of those who hold public trust.

As Deputy USTR, I expect to establish a good working relationship with members of this committee and with your counterparts on the House Ways and Means Committee. I feel it is essential for the executive and legislative branches to work together in an atmosphere of mutual trust and understanding, and I will do what I can to promote just such an atmosphere.

In recent years my business activities have revolved around international trade and commerce. I worked with and for both United States and foreign companies, and I have had the opportunity to look at international trade from a practical real-world perspective. I believe I have an appreciation for the operation of the trading system, its difficulties and benefits, and an understanding of the seriousness of the problems facing U.S. industry.

One of USTR's greatest resources is its relationship with the private sector through the advisory committee structure. If the U.S. trade policy is to be effective, it must work for those who are in the front lines of selling America's products and services throughout the world. In this regard, a fair and open world trading system is vital to our economic well-being.

Yet, while we are increasingly dependent on the international marketplace, the United States again faces an intolerable trade deficit in 1985. The major factors which have caused such a deficit are widely discussed and debated and are well-known to this committee. Most are macroeconomic.

However, a contributing cause to the trade deficit has been a lack of discipline on behalf of some of our trading partners, denying our businesses access to their markets and encouraging subsidized or unfair penetration of our own market and other markets in which we compete.

We must be aggressive in opening foreign markets to our products, and we must move swiftly to act against those who would try to take unfair advantage of our system.

The jobs of many Americans depend upon a fair world trading system. It is not protectionist to pursue our rights and interests under U.S. law and the GATT to protect jobs from the unfair trading practices of others. Equally, we must also be aware of the potential for an even greater loss of jobs if the world trading system deteriorates. We operate in a worldwide marketplace, and it is in our fundamental commercial interest that the system be strengthened, not reduced to rubble.

The administration can and must make the strongest bilateral and multilateral efforts to convince our trading partners to im-

prove market access for our products, and to impose greater discipline on their trading practices.

In summary, it seems to me that the overall message we need to convey to our trading partners is that, while the U.S. commitment to free trade remains strong, we expect other nations to live up to their responsibilities to the trading system, and we will not tolerate unfair trading practices which negatively impact our commercial interests, either in our home market or elsewhere in the world.

Thank you.

[Mr. Woods' written testimony and résumé follow:]

STATEMENT OF HON. ALAN WOODS, NOMINEE FOR DEPUTY U.S. TRADE REPRESENTATIVE

Thank you Mr. Chairman. It is an honor and a pleasure to appear before this committee as the President's nominee to be Deputy United States Trade Representative. If confirmed, I will endeavor to live up to the high personal and professional standards expected of those who hold the public trust.

As Deputy USTR, I expect to establish a good working relationship with the members of the Senate Finance Committee and with your counterparts on the House Ways and Means Committee. I feel it is essential for the Executive and Legislative branches to work together in an atmosphere of mutual trust and understanding. I will do all I can to promote just such an atmosphere. I am aware of the special relationship between the Senate Finance Committee and the Office of the U.S. Trade Representative, and the vital role which this Committee played in the creation of the USTR. The Constitution gives to Congress the authority for regulating foreign commerce. The USTR is the office within the Executive Branch that has the responsibility for coordinating and articulating trade policy. A high degree of consultation must take place between the Congress and the USTR if the Nation is to have a rational policy which will advance broad U.S. commercial interests.

In recent years my business activities have revolved around international trade and commerce. I have worked with and for both U.S. and foreign companies and have had the opportunity to look at the practice of international trade from many angles. I believe I have an appreciation of the operation of the trading system—its difficulties and benefits and an understanding of the seriousness of the problems facing U.S. industry. I believe this experience coupled with my previous public service provides a sound basis for the position of Deputy USTR.

I hope to benefit from the knowledge and experience of others in the private sector through the USTR's advisory committee structure which provides advice and counsel in the development of trade policy. One of USTR's greatest resources is this relationship. If the U.S. trade policy is to be effective it must work for those who are on the front lines in selling American products and services throughout the world.

A fair and open world trading system is vital to our economic well being. Last year our combined export-import trade was over half a trillion dollars. The export of goods and services accounted for ten percent of our GNP in 1984. Forty percent of farm production is sold abroad and one-eighth of all manufacturing jobs produce goods that are exported. As a Nation, we are the world's largest exporter.

Yet, while we are increasingly dependent on the international marketplace, the United States again faces an intolerable trade deficit in 1985. The factors which have caused such a deficit are widely discussed and debated and are well known to this committee. Certainly two of the major factors are the strength of the dollar relative to the currencies of other nations and the growth of the U.S. economy at a faster rate than our major trading partners. This has created a demand for goods in the United States far greater than that experienced elsewhere in the world.

Another factor contributing to the trade deficit has been the lack of discipline on behalf of some of our trading partners—denying our business access to their markets and by encouraging subsidized or unfair penetration of our own market and other markets in which we compete. The government must be aggressive in opening foreign markets to our products and must move swiftly to act against those who would try to take unfair advantage of our system.

The jobs of many American workers depend upon a fair world trading system. It is not protectionist to pursue our rights and interests under U.S. law and the GATT to protect those jobs from the unfair practices of others. Equally we must also be aware of the potential for even greater loss of jobs if the world trading system deteriorates. Our actions should be specific and directed—not broad and dispersed. We

operate in a world-wide marketplace and it is in our fundamental commercial interest that the system be strengthened—and not reduced to rubble.

The administration can and must make the strongest bilateral efforts to convince our trading partners to improve market access for our products and to impose greater discipline on their trade practices.

But it is neither efficient nor productive to seek greater discipline in the system through unilateral actions or bilateral negotiations alone. The GATT isn't perfect, but it is the only system we have and it is critical that it be shored up. A new GATT round which focuses on the tightening of existing rules, the settlement of disputes and the expansion of rules into areas not now covered should be an important part of our trade policy. Simply stated the GATT needs to be fixed and a new trade round is the way to fix it.

In summary, it seems to me that the overall message we need to convey to our trading partners is that while the United States commitment to free trade remains strong, we expect other nations to live up to their responsibilities to an open trading system, and we will not tolerate unfair trading practices which negatively impact our commercial interests either in our home market or elsewhere in the world.

In response to Outline of Information Requested of Nominees

A. Biographical

1. M. Alan Woods
2. 1835 California Street, N.W.
Washington, D.C. 20009
3. 10/13/45 St. Louis, MO
4. Married Cameron Derby
5. No children
6. Mexico High School, Mexico, MO From 1960 to 1963 --
Diploma

Park College, Parkville, MO From 1963 to 1964

American University, Washington, D.C. From 1964 to
1967 -- B.A.
7. 1/65 - Press Assistant, U.S. House of Representa-
9/67 tives, Washington, D.C.
Served as Press Secretary to Congress-
men Robert Ellsworth and Larry Winn, Jr.
- 9/67 - Staff Member, Presidential Campaign and
1/69 Transition, Washington, D.C.
Research and Press Aide to Richard M. Nixon
during 1968 Presidential Campaign and
transition into the Presidency.
- 1/69 - Staff Assistant to the President, The White
5/70 House, Washington, D.C.
Served as Assistant Press Secretary.
- 5/70 - Campaign Manager, "Bond-for-Auditor" Cam-
11/70 paign, Mexico, Missouri.
Managed campaign of Christopher S. Bond for
the office of State Auditor.
- 12/70 - Vice President, Bradley, Woods and Company,
12/72 Washington, D.C. and New York, NY
Founder and Vice President of firm which
provided political and economic research to
institutional investment companies.

- 1/73 - Executive Assistant to Governor of Missouri,
 9/74 Jefferson City, Missouri,
Chief of Staff to the Governor.
- 10/74 - Deputy Director, Presidential Personnel
 8/75 Office, The White House, Washington, D.C.
Assisted in the transition from the Nixon to
the Ford Administrations. Responsible for
making recommendations to the President for
all top level federal governments posts.
- 8/75 Consultant, President Ford Committee,
Washington, D.C.
Advisor to Committee Chairman on political
organization.
- 9/75 - Principal Deputy Assistant Secretary of
 11/75 Defense (Public Affairs), Department of
Defense, Washington, D.C.
Managed the day-to-day public affairs
activities of the Department of Defense.
- 12/75 - The Special Assistant to the Secretary and
 7/76 Deputy Secretaries of Defense, Department of
Defense, Washington, D.C.
Served as the civilian chief of staff and
senior advisor to the Secretary in matters
relating to the operations, policy, manage-
ment and budget, of the United States
military establishment.
- 8/76 - Assistant Secretary of Defense (Public
 1/77 Affairs), Department of Defense, Washington,
D.C.
Nominated by the President and confirmed by
the United States Senate to direct the public
affairs activities of the Department.
Spokesman for the Department and principal
advisor to the Secretary on public affairs
matters.
- 6/77 - Vice President, DGA International,
 7/83 Washington, D.C.
Responsible for the defense and civil
aerospace activities a firm which provided
marketing representation for European
companies in the United States. Coordinated
marketing, legal, technical and governmental
affairs activities for a wide range of
high-technology products.

- 8/83 - Vice President-Technology, Sears World Trade,
 2/85 Washington, D.C.
 Responsible for the creation and development
 of a business specializing in the transfer of
 technology and the sale of high technology
 products in European and Far Eastern markets.
- 2/85 - President, International Service Corporation,
 Present Washington, D.C.
 Sole proprietorship providing international
 and marketing consulting services.

8. Same as A. 7

In addition to the positions noted above:

1974 Consultant, U.S. Department of Defense,
 Office of International Security Affairs.

1977-80 Member, National Advisory Council on the
 Education of Disadvantaged Children.

1985 As an employee of International Service
 Corporation, Consultant to the Agency for
 International Development.

9. Board of Trustees Park College, Park College Parkville,
 MO. Member 1972 - 1976

International Institute for Strategic Studies, London,
 England. Present Member

Capitol Hill Club, Washington, D.C. Present Member

American Political Science Association Member 7 - 1975

10. Registered Republican. Worked in and contributed to
 school board and city council races in the District of
 Columbia, State legislative and city council races in
 Alexandria, Virginia, the National Republican Party
 and the Republican party of Missouri.

11. Park College Scholarships, 1963.
 Park College Outstanding Alumnus, 1975.
 Department of Defense, Distinguished Service Medal,
 1977.

The CHAIRMAN. What is an unfair trading practice?

Mr. WOODS. Good question, Senator.

An unfair trading practice is a practice which, in my mind, unfairly discriminates against one product or good in favor of another one. I guess there are such things as fair trading practices in the context of the GATT that also would be discriminatory. But what I am trying to say, and I haven't thought about it in quite the terms you put it, an unfair trading practice is one where a country discriminates against the goods of others as opposed to its own goods.

The CHAIRMAN. Well, let me ask you a specific question.

Mr. WOODS. Sure.

The CHAIRMAN. In and of itself, are dramatic wage differentials an unfair trading practice?

Mr. WOODS. In and of themselves, no.

The CHAIRMAN. Dramatically different environmental standards that are costly to industry to meet?

Mr. WOODS. Per se, I wouldn't think so. No, sir.

The CHAIRMAN. Any other dramatic differences, whether they be unemployment comp, workers' comp, where one country or one country's industry is saddled with some social costs that other countries' industries are not?

Mr. WOODS. In and of themselves, no, I don't believe so.

The CHAIRMAN. Is it an unfair trading practice that some countries choose to use a form of consumptions taxes that are rebatable at export and other countries don't?

Mr. WOODS. In the context of the agreements that were reached in GATT in 1948, no, it is not. It is clearly a national decision as to what type of tax structure you are going to have.

The CHAIRMAN. Do you think the administration, whether that be the President or USTR, has sufficient powers under the present law to respond effectively against unfair trading practices?

Mr. WOODS. As I have looked at section 301, it would appear to me that the President has an extraordinary amount of latitude to deal with unfair trading practices. There are always possibilities of increasing his latitude and increasing the options he has; but at this point I wouldn't have any suggestions for additional ones.

The CHAIRMAN. Under 301 there seems to be no limit on his powers.

Mr. WOODS. That is what I am saying. Yes, sir.

The CHAIRMAN. If we can't sell cotton in Japan, they can't sell copiers here. And I think the President could probably say that, and under 301 it would fit.

Now, do you think the President has sufficient powers—and by President I will include the administration—has sufficient powers to respond against unfair competition under 201 or other legislation? Because there you don't have to prove unfairness.

Mr. WOODS. Only injury. Yes, sir.

The CHAIRMAN. That's right.

Mr. WOODS. And it would seem to me that he does. Yes, sir.

The CHAIRMAN. And this is not a question as to whether the President has acted effectively, but does he have the power to act, if he chooses, in your judgment?

Mr. WOODS. It would seem that he would have full power, sir.

The CHAIRMAN. Now, when is the national security, the national defense, a legitimate argument to exercise the Presidential powers against either unfair or fair competition? What is the standard of national security or national defense?

Mr. WOODS. Well, I wouldn't be able to address what the legal standard is, but it seems to me that the real standard for national security or national defense is that we have the type of industrial base and economic base in this country that is necessary to maintain our circumstances in the world from a national security perspective.

One of our national security interests, one of the strengths of this Nation from a national security perspective, is its economic strength, certainly; but it is extraordinarily hard to quantify that economic strength in terms of our total national security circumstances.

The CHAIRMAN. I wasn't thinking of general economic strength so much as specific industries. For the national defense do we need to have a textile industry, an apparel industry, a shoe industry? Or is it sufficient, if the Army really has to have shoes, that rather than saying we will protect the entire shoe industry we'll simply set up a U.S. Army shoe plant like the old ordnance plants and simply manufacture what shoes we need for the military, and otherwise not offer any help to the domestic shoe industry?

Mr. WOODS. Well, I certainly would not want to say that we don't need a textile or a shoe industry in this country; but, certainly, neither of those industries would be strategic to the national defense in a national security sense, as I think I am understanding your meaning of it.

The CHAIRMAN. Not in the same sense that probably steel would be, or shipbuilding.

Mr. WOODS. Or machine tools. Yes, sir.

The CHAIRMAN. If we decide that some industry is critical to the national security, is it best protected by quotas? In the case of shipbuilding, we have done it by Buy America. We have just said the military has to build their ships here. That really isn't a tariff or a quota; it is just a Buy America provision. In your judgment, which is the better way to go, having decided that an industry is essential to the national security?

Mr. WOODS. I don't think there is any specific formula that applies in all cases. In some instances an industry is best maintained by imposing quotas. In some other industries a Buy America requirement may be necessary and in some industries it is a tariff would provide a satisfactory solution. We have an array of options out there that I think we can use, and I don't see that one really is any better in a generic sense than another.

The CHAIRMAN. As a matter of fact, the President chose to use the Tax Code when he shifted from Treasury I to the President's bill, with the intangible drilling costs in the oil industry. The argument was national security, and we had to have the oil and gas industry, and use the Tax Code, therefore, to achieve that end.

Senator Danforth.

Senator DANFORTH. Mr. Chairman, I was fascinated by your line of questions, especially at the outset. I think asking Alan Woods to

attempt to define unfair trade practices is somewhat like trying to define obscenity. [Laughter.]

We know it when we see it, but it is just too awful to describe. [Laughter.]

We do have a fairly good set of laws on the books now, but there is always room for improvement. I look forward to working with you and working out the legislative changes that we have. I know that there is a lot of activity now going on in Congress, and a lot of suggestions—some good, and some not so good.

My hope would be that, as we proceed on this path together, your approach on behalf of the administration will be one of trying to work out problems and reach reasonable consensus between the administration and the Congress, rather than to simply issue non-negotiable demands on the Congress and insist that the administration's position is absolutely unmovable.

Mr. Woods. Well, Senator, I have been in Washington a long time, and I think I have observed in that period that issuing non-negotiable demands to the Congress is not a very productive way of moving forward on anything.

With regard to your comments on trade legislation, I would say that it seems to me that maybe there are a number of pieces on the board which we really haven't considered to be on the board before. I recall back in the early 1970's a circumstance that doesn't have anything to do with trade directly, in which the President at that time said, "You know, wage and price controls are not an option." And yet, I believe it was about 4 months later that we had wage and price controls in this country.

So, there are a lot of nonoptions that become options in different circumstances, and it is a very circumstantial business.

The one standard I would tend to use in the international trading arena, is that we have to have the flexibility to make sure that we can abide by our international obligations, obligations that have been undertaken by the executive and legislative branches together in this country. And I think, as long as we can do that, there are an awful lot of pieces that can be moved around the board.

Other nations are very creative when it comes to building trade barriers, and we have to be equally creative about tearing them down.

Senator DANFORTH. The USTR does more than suggest legislation or even negotiate agreements. It is the principal spokesman within the administration on matters relating to international trade. It is the honest broker in creating trade policy.

We have some good laws on the books, but when we had a \$123 billion trade deficit last year, and \$140 or \$150 billion or whatever it is going to be this year, it would be clear to me, at least, that something has gone very wrong, and that when something has gone very wrong it takes the best minds that we have in this country to try to make it right, to try to improve the situation.

I would hope that you are not satisfied with the status quo—in saying "201 is a fairly good statute, and 301 is a fairly good statute"—but I would hope you would recognize that something really has gone haywire with respect to international trade, and that it is going to take some doing to set it right.

Mr. Woods. No; I absolutely agree with that conclusion, Senator, and I do think it will take some doing to set it right. And I think it is going to take a great deal of cooperation between the executive and the legislative branches to do that.

Some of that cooperation, I believe, needs to be in the area of coordination with regard to negotiating strategies and tactics, which I don't think is probably beneficial to discuss here at any great length. Cooperation also needs to take place in the legislative arena, and I know the USTR has been considering some legislation in that regard.

Senator DANFORTH. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Woods, what do you think the administration should attempt to accomplish at the next GATT round? What do you think the U.S. goal should be?

Mr. Woods. Well, if I may, let me say there are a lot of things that ought to be the administration's goal in the next round of GATT.

Let me first comment on the use of the term "round," because I had the opportunity to read Ambassador Yeutter's testimony when he was before this committee at his confirmation hearings, and I thought he made a very good point. That was, that the international trading system is in such a circumstance—that maybe GATT ought to be in a perpetual round, in the sense that we ought to have ongoing negotiations on a rather constant basis.

Senator BAUCUS. But apart from the process, what specific accomplishments do you think the administration should seek?

Mr. Woods. Well, I think we need to make some progress on agricultural subsidies, which are not currently being dealt with very well in the GATT. I think we need to make some progress on dispute settlement and nontariff barriers; we need to introduce into the GATT some greater discipline with regard to safeguards; we need to have some discussion on intellectual property, on services, and on high technology. Those would be the major areas.

Senator BAUCUS. Regarding agriculture, you say progress. Do you mean reduced subsidies?

Mr. Woods. Reduced subsidies. Yes, sir.

Senator BAUCUS. Both in this country and in other countries?

Mr. Woods. Yes, sir.

Senator BAUCUS. And on the area of intellectual property rights, by progress do you mean greater protection?

Mr. Woods. Greater protection. Yes, sir.

Senator BAUCUS. Do you suggest a timetable?

Mr. Woods. I would think it would be very helpful to see a new round get underway sooner rather than later. The system is, obviously, under a great deal of strain right now, and one of the ways to relieve some of that strain is to get a round underway.

Senator BAUCUS. What about the inclusion of some agreement on natural resource subsidies? Shouldn't that be an objective of the next GATT round? Some agreement on limiting natural resource subsidies? I refer you to the Gibbons bill to which I introduced the companion bill over here.

Mr. Woods. Yes, I know you have, sir.

Senator BAUCUS. Isn't that a good idea?

Mr. WOODS. I think dealing with the question of natural resource subsidies is a very good idea, sir. [Laughter.]

Senator BAUCUS. I am glad you agree. [Laughter.]

I may ask you that same question at a later date.

What about this \$300 million war chest that the administration announced in an attempt to combat, I guess, subsidies into third-party markets? Do you know how the administration arrived at the \$300 million figure?

Mr. WOODS. No; I don't know where the \$300 million figure came from, sir.

Senator BAUCUS. Does that strike you as too high, too low, or about right? Is it a good idea?

Mr. WOODS. Well, first of all, I think the war chest is a very good idea. It is the kind of creative thinking and the creation of a new piece on the board, as I believe is the term I used earlier, that I think is very helpful to ending practices of others.

Having said that, I think it is the principle of the war chest itself, rather than its actual level, in terms of whether it is \$100 million or \$300 million or \$1 billion, that is likely to cause people to take notice.

Senator BAUCUS. Do you think it is about the right size?

Mr. WOODS. You know, we will find out after it has been in operation for a year. I really don't have a view on whether the size is appropriate or not at this time.

Senator BAUCUS. Going back to the next GATT round, I would just suggest that the administration have very clearly defined and fairly aggressive goals in mind and specific benchmarks in mind before it comes to the Congress to ask for authority.

Mr. WOODS. You would—I'm sorry.

Senator BAUCUS. I would expect and hope that the administration would have precise and fairly aggressive goals in mind before it comes to the Congress to ask for negotiating authority for the next GATT round.

Mr. WOODS. I would think that would be the case, and I would think that those goals would be worked out in consultation with the Congress before we came formally and asked for that authority.

Senator BAUCUS. Thank you very much.

The CHAIRMAN. Assume a situation of a tremendous wage disparity, and an American industry finally cannot compete, that there is so much handwork involved that they cannot compete against foreign competition in this market. And, it is an industry that by any rational definition doesn't fit into the national security definition. Should our position just be, then, to let it go with whatever transition or ease we can provide, but just to let it go?

Mr. WOODS. Well, I am not inclined to let industries go in their entirety. I think what we need to do if we are getting ourselves into that kind of circumstance—and it seems to me it takes a long time to get there in most instances—is to do whatever we can to ease the transition of that industry.

If those circumstances are such that that easing might best be done by result of adjustment assistance, as opposed to quotas or to tariffs, well, then, that is one method of easing it. In some instances you might have a transitory situation where, because of

something like an overvalued dollar, a circumstance that is not going to continue over a long period of time and you might want to look at the different mechanisms.

The CHAIRMAN. Yes; but that is a different matter. There you are assuming that the industry indeed can make it against the foreign low-wage competition but that it has a 2- or 3-year hurdle because of our own deficit and dollar problems.

But for those industries that simply are not going to make it—and, interestingly, this may be the position that Japan appears to have taken on apparel, not textiles but apparel, that they just cannot compete with Korea and Singapore; and so, they are not going to make a strong effort at saving their apparel industry. Not textiles—they are still in that.

Are those decisions we ought to make? Is that an industrial policy, and should we simply face up to it and say, "Some industries are going to go"?

Mr. WOODS. Well, I think we do have to face up to that occasionally, and say that some industries just are not going to be competitive. The international trading system exists on the theory of comparative advantage, that industrial manufacturing will follow the places in the world where such advantages exist.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. No more questions.

The CHAIRMAN. Mr. Woods, good job. Thank you. It is good to have you with us.

Mr. WOODS. Thank you, Senator.

The CHAIRMAN. Did I see Senator Garn come in? I have a few questions about banking deregulation I wanted to ask.

Senator GARN. I'm ready.

The CHAIRMAN. In fairness to you, you have been ready on that subject for a good period of time.

Senator GARN. For about 11 years.

The CHAIRMAN. Well, whatever lack of progress we have suffered, it has not been your fault.

Go right ahead, Jake.

STATEMENT OF HON. JAKE GARN, U.S. SENATOR FROM THE STATE OF UTAH

Senator GARN. Thank you, Mr. Chairman. It is a pleasure for me to be here today, and I will be brief.

First of all, let me announce to the distinguished chairman of the Senate Finance Committee and Senator Baucus that the Banking Committee has already completed our hearings on Mr. Freedenberg, and we will have a unanimous recommendation of approval from the Banking Committee.

That was easy to predict from the very beginning, because Paul has served as a staff member of the Banking Committee for more than 7 years, during some very difficult times on export administration legislation.

I am not going to take a great deal of your time; I simply would like you to know that there would have been no renewal of the Export Administration Act without Mr. Freedenberg's excellent staff work.

I started trying to revise the Export Administration Act more than 6 years ago, and Senator John Heinz and I worked together on a compromise 2 years ago. We had some different viewpoints, and finally came up with what we felt was a very good compromise, passed it in the Senate, went to work with the House on a conference that lasted for more than 6 months, failed during 1984, came back with them this spring, and finally produced an Export Administration Act renewal.

During all of this period of time, well over a year after we had produced our product, although Senator Heinz and I and the principals were not involved, the staff were involved in trying to work out a renewal of the Export Administration Act. Paul had the lead in our committee, and it is not an overstatement to say that without his work there simply would not have been a renewal of the Export Administration Act.

He is as professional a staff member as I have ever had work for me, in the truest sense of the word, knowledgeable in all that he does. I know of no one, certainly on the Senate Banking Committee, that has the detailed knowledge of export administration that Paul does.

So, I am not going to take any more of your time, just say that I think that this is an excellent nomination, and that Commerce will not have had anyone assume this position who has such detailed knowledge of the job that he is being nominated to perform.

The CHAIRMAN. Senator, thank you. Mr. Freedenberg's reputation is well known to all of us, and especially to all of our staffs, and everything you have said is true.

Do you have a statement, Mr. Freedenberg?

Thank you for coming, Jake.

Senator GARN. I thank you for the opportunity of being here. Any time you want me back to talk about banking, I'm prepared at any time. [Laughter.]

Mr. FREEDENBERG. Thank you.

[The prepared statement of Paul Freedenberg and a biographical sketch follow:]

PREPARED STATEMENT OF PAUL FREEDENBERG

Mr. Chairman, Senators, I am deeply honored to appear before you today to testify regarding my confirmation as Assistant Secretary of Commerce for Trade Administration.

I believe that the position that I have held for the last six years on the Subcommittee on International Finance and Monetary Policy of the Senate Banking Committee has been an excellent training ground for the position to which I have been nominated. That Subcommittee has been at the center of a great number of the key trade issues of the 1980s.

As a member of the committee staff I have been involved in issues ranging from the rechartering of the Export-Import Bank to the Export Trading Company Act of 1982 and the Export Administration Amendments Act of 1985. Work on those bills sensitized me to the economic and political context of America's trade problems. I think that I can bring that awareness and sensitivity to my new position in the Administration.

It is a great privilege as well as a great challenge to be nominated to the position of Assistant Secretary of Commerce for Trade Administration. In that job I know that I will have to make decisions which not only frame the context for our nation's capacity to protect its technological superiority over our potential adversaries, that office also will have an effect on the strength and economic viability of some of the most productive and innovative companies through export licensing and trade remedy decision. That I have been chosen by the President and received bipartisan

support from Senators for that position is all the more challenging, as I try to live up to the expectations of my supporters.

I promise you my best efforts at vigorously and fairly administering the trade laws and also my close attention to reconciling the twin goals of efficient administration and protection of our nation's technology. I have always believed that there is no necessary conflict between those two goals, and the new Export Administration Act was written with that objective in mind.

With regard to the import side of the trade ledger, I believe that both the Congress and the American people are demanding vigorous enforcement of our unfair trade practice laws, and I intend to provide just that. I see no reason to tolerate unfair trade practices from any trading partner, no matter what the justification.

With that brief overview, I will pause now to answer any questions you may have.

PRESIDENTIAL NOMINEE STATEMENT
PREPARED FOR
SENATE COMMITTEE ON FINANCE

A. BIOGRAPHICAL

1. Name: Freedenberg Paul Herman
(last) (first) (other)
2. Current Address: 407 Eisner Street
Silver Spring, Maryland 20901
3. Date of Birth: February 17, 1943
Place of Birth: Chicago, Illinois
4. Married.
Wife's maiden name: Roberta Beth Horberg
5. Names and ages of children: Joshua Michael - 11
David Eli - 6

6. Education:	Dates Attended	Degrees Received	Dates of Degrees
Institution			
University of Illinois	1/1/61-1/30/65	B.A.	Jan., 1965
University of Chicago	10/1/65-3/1/67	M.A.	Oct., 1967
University of Chicago	3/1/67-8/30/70	Ph.D.	Mar., 1972

7. Employment Record:

Job Description/ Title	Employer Name	Location	Dates
	Senate Banking Committee	534 Dirksen SOB Wash, DC 20510	01/03/81-Present
--Economist			10/01/77-
--Minority Professional Staff	Senate Banking Committee	see above	01/02/81
	Joint Committee on Defense Production	Room 421, Old Immigration Bldg. Wash, DC 20510	05/01/77
--Minority Staff Member			09/30/77
	Office of Sen. J.B. Johnston	136 Hart SOB Wash, DC 20510	01/01/76-04/30/77
--Legislative Assistant			
	Department of Political Sci.	Tulane University New Orleans, LA	09/01/70-12/31/75
--Assistant Professor			
	University of Chicago	5801 S. Ellis Ave. Chicago, IL 60637	10/01/69-05/31/70
--Lecturer			
--P/T Administrative Assistant	Committee on Int'l Relations	Univ. of Chicago Chicago, IL 60637	09/01/66-08/31/67

A. BIOGRAPHICAL (continued)

8. Government Experience:

Legislative Assistant to Senator J. Bennett Johnston
January, 1976-April, 1977
Minority Staff of Joint Committee on Defense Production
May, 1977-September, 1977
Minority Staff of Senate Banking Committee
October, 1977-January, 1981
Economist, Majority Staff Senate Banking Committee
February, 1981-Present

9. Memberships:

<u>Organization</u>	<u>Office held</u>	<u>Dates</u>
American Economic Assoc.	none	01/81-Present
American Political Science Association	none	09/69-08/76

10. Political Affiliations and Activities: none

11. Honors and Awards:

Bachelor's Degree with Distinction and Honors from
University of Illinois
National Aeronautics and Space Administration Fellowship
1967 - 1970

12. Published Writings:

"High Technology and the Export Administration Act," in
Michael R. Crinkota, Ed., Export Controls (New York:
Praeger, 1984), pp. 169-175

"U.S. Export Controls: Issues for High Technology
Industries," National Journal (December 18, 1982),
pp. 2190-2193.

"Oil and International Politics in the 1970s," in R. Ebel
and H. Hrubecsky, Eds., Perspectives on the Energy Crisis
(New Orleans, 1976).

"Co-author with William Reinsch, "Reforming the Foreign
Corrupt Practices Act," The Corporate Board (May/June,
1985), pp. 15-18.

STATEMENT OF PAUL FREEDENBERG, NOMINEE TO BE ASSISTANT SECRETARY OF COMMERCE FOR TRADE ADMINISTRATION

Mr. FREEDENBERG. Mr. Chairman, Senator, I am honored to appear before you today to testify regarding my confirmation as Assistant Secretary of Commerce for Trade Administration.

I believe that the position that I have held for the last 6 years on the Subcommittee on International Finance and Monetary Policy of the Senate Banking Committee has been an excellent training ground for the position to which I have been nominated. That subcommittee has been at the center of a great number of key trade issues in the 1980's.

As a member of the committee staff, I have been involved in issues ranging from the rechartering of the Export-Import Bank to the Export Trading Company Act of 1982 and the Export Administration Act Amendments of 1985. Work on those bills sensitized me to the economic and political context of America's trade problems, and I think that I can bring that awareness and sensitivity to my new position in the administration.

It is a great privilege as well as a great challenge to be nominated for the position of Assistant Secretary of Commerce for Trade Administration. In that job I know that I will have to make decisions which not only frame the context of our Nation's capacity to protect its technological superiority over our potential adversaries, that office will also have an effect on the strength and economic viability of some of our most productive and innovative companies through export licensing and trade remedy decisions.

That I have been chosen by the President and have received bipartisan support from Senators for that position is all the more challenging, as I try to live up to the expectation of my supporters. I promise you my best efforts at vigorously and fairly administering the trade laws and also my close attention to reconciling the twin goals of efficient administration and protection of our Nation's technology.

I have always believed that there is no necessary conflict between those two goals, and the new Export Administration Act was written with that objective in mind.

With regard to the import side of the trade ledger, I believe that both the Congress and the American people are demanding vigorous enforcement of our laws against unfair trade practices and I intend to provide just that. I see no reason to tolerate unfair trade practices from any trading partner, no matter what the justification.

With that brief overview, I will pause to answer any questions you might have.

The CHAIRMAN. One of the things you are going to be responsible for is section 232 of the Trade Expansion Act, and at least advising the President on when and if to restrict imports because of national security.

Mr. FREEDENBERG. Yes.

The CHAIRMAN. What should be the standard for national security?

Mr. FREEDENBERG. It is a very difficult one to develop. Prior to my position with the Banking Committee I was a staff member of

the Joint Committee on Defense Production, and, in fact, worked on that issue for the Banking Committee after that Joint Committee was merged into the Banking Committee.

I think you have to have a good appreciation of what the defense industrial base is—what is and what isn't essential. I think there are some things we can agree on and that have been enumerated in earlier discussions of the defense industrial base. You have talked about them earlier: steel, machine tools, and semiconductors for example.

Probably, given the nature of our weapons systems, we need a good, high technology base such as microchip computer capacity. Beyond that it becomes difficult and slippery, and it is a judgment call. Obviously, what you were talking about earlier, the textiles would be at the other end of the continuum.

But I think it is a difficult issue.

The CHAIRMAN. You mean they would be at the nonsecurity end?

Mr. FREEDENBERG. At the nonsecurity end of the continuum. I think if you define everything going as far as textiles as national security, you really have no definition of what isn't national security, and I think you need some standards.

But, I think within that continuum it is a great deal of judgment and a great deal of planning. I don't know that we have really thought that out, to the degree we are going to have to in the next 15 years, with the nature of the changing of our basic industries. And I think we are going to have to make a judgment about which industries are essential to preserve and, if so, at what levels. Obviously, you don't need to preserve the industry necessarily at the highest level of production that it has had in the last decade.

The CHAIRMAN. No; not—as I indicated earlier—if you just simply wanted to go to the equivalent of a U.S. ordnance plant and have a U.S. textile plant to make the textiles that are necessary to the military. Inefficient as the Federal Government is at managing, that might be cheaper than general protection for the entire industry.

Mr. FREEDENBERG. Yes. Obviously, though, you would need a surge capacity, and you wouldn't be able to do that simply by having a Government-sponsored textile plant or something of that sort. But you would need a surge capacity in other products as well.

The CHAIRMAN. You mentioned textiles being "the other end of the spectrum," but several times in the debate we have heard any number of Senators to say that textiles had been found to be next only to steel as most critical to our national security. And the difficult choices you are going to have to make is that every industry thinks it is critical to the national security. Whether you think it is or not, it thinks it is. I don't know how to resolve that.

Mr. FREEDENBERG. I don't have a simple solution for you today. I think, again, it is a matter of judgment. Part of the advantage that I bring to the job in terms of my background is that I have studied this problem for a few years, and I hope I will bring that perspective to the job.

The CHAIRMAN. Do you think the administration needs any additional powers to retaliate, compete, use whatever words you want, against either fair or unfair competition?

Mr. FREEDENBERG. Obviously, there is always room for improvement in the laws; but I think there is a very broad power available to the administration now, particularly section 301 of the Trade Act; and also, in terms of protection, section 201. Both of those have very broad grants of authority.

I think the dispute from Congress has revolved around forcing a decision—that is, the discretionary part of it. And obviously that is the difficult part, and that is where revisions are going to be proposed.

The CHAIRMAN. Indeed, those who disagree with the President's shoe decision are not arguing that he didn't have the power to act. I think he acted rightly; I am not critical. But their argument is that he should have acted and didn't, not that he didn't have the power to act.

Mr. FREEDENBERG. That's right. I think the laws are written quite broadly, and obviously with the idea of forcing the opening of markets. I think the question is the judgment call of how you use that power.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Besides national security, Mr. Freedenberg, what other areas do you think of as areas in which there are industries we should in some way protect?

Mr. FREEDENBERG. Well, I think obviously you have to have a sense of not allowing an industry sector to be driven out of business because of the vagaries of a particular economic phase of our economy.

Senator BAUCUS. What does that mean in the case of an industry where the foreign competition stem from very low wage rates?

Mr. FREEDENBERG. That is a difficult question. We already have a situation in agriculture where we have subsidies; that's how we respond. There are sugar subsidies; there are a number of other subsidies that keep our industries protected or competitive.

Senator BAUCUS. Well, I am referring to the textile industry. There is an industry that has suffered severe dislocation in part from competition, from nations with lower wage rates. Is that the kind of area deserving of protection? Its problems stem in part from drastically changing international economic conditions.

Mr. FREEDENBERG. I think the argument can be made that there are times when that international competition is unfair. I think the more difficult judgment comes when you are simply talking about just differentials in the wages, for example, or production costs because of particular advantages that that country has. That is a very difficult call to make.

Obviously, though, since we are talking about textiles, textiles have actually improved in their productivity significantly in the last 5 years, and there are things that can be done in our country to offset the low wages.

Senator BAUCUS. Such as? I am talking about textiles now.

Mr. FREEDENBERG. There is productivity increases through automation, one of the things that have happened in textiles.

Senator BAUCUS. But jobs are being lost.

Mr. FREEDENBERG. They are, yes.

Senator BAUCUS. Significantly?

Mr. FREEDENBERG. Yes; they are, very significantly.

Senator BAUCUS. So, is modernization and innovation here offsetting low wages elsewhere?

Mr. FREEDENBERG. No. I think you, ultimately, get down to a core. And the question of whether you want to preserve the industry because the—

Senator BAUCUS. That is what I am trying to get at. In addition to national security, what other standards would you apply?

Mr. FREEDENBERG. I think in terms of the current laws on the books, it is very difficult to come up with a standard, other than the injury standard of 201, that would justify protection of an industry.

On the other hand, I think it is up to Congress to decide. If it wishes, if it feels that a particular sector needs to be preserved, I think the power is there, and that is the way the Constitution was created.

Senator BAUCUS. That is true, but often under these laws it is not Congress, it is the President, who decides—under section 201, or section 301, for example, we delegate very broadly to the executive branch in this area. I am trying to get an idea of what you think the administration's standards would be in applying a test as to whether areas should be granted protection. I assume some conditionality.

Mr. FREEDENBERG. Again, within the context of the current trade laws, it is very difficult to deal with the issue of comparative advantage. They are not created for that context. Perhaps in the next 5 or 10 years we are going to have to consider that issue as a political issue, where it should be, in the form of the Congress.

If you create a very vague standard for that, I don't know that you will be happy, because I think it is clear that the administration isn't going to give protection simply on the basis of a vague standard; it is going to have some direction from Congress.

Senator BAUCUS. Turning to a different and more specific area, I am a little confused as to how the Commerce Department came up with this standard generally available under the countervailing duty laws. How the Commerce Department came up with the standard and, how it applied it to the issue of Canadian timber stumpage.

You know, both Canada and the United States have signed the same subsidies code. It says nothing about general availability. Cheap stumpage is available to those industries using lumber—but it's irrelevant to other industries.

So, my question is: How in the world can the Commerce Department justify this general availability test when, obviously, low stumpage is available to and useful to only those who buy and use timber—forest products? How can the Commerce Department with a straight face justify that application of that standard?

Mr. FREEDENBERG. I think there is an ITC study out, due today in fact, that would be the basis of a reevaluation of that problem.

Obviously, it is the sort of problem, particularly with the intimate trading relationship that we have with Canada, which is a perfect case for negotiation.

I think the problem, however, is clear, that it is hard to tell any country what it should charge for its natural resource. But then

there is also the question of how you interpret the particular code and the agreement under the GATT.

I think this is something that we probably need to reevaluate and look at in terms of this new—

Senator BAUCUS. The witness preceding you, Mr. Woods, thought that the Gibbons-Baucus natural resource subsidy bill is a good idea. Don't you agree?

Mr. FREEDENBERG. It is something to look at.

Senator BAUCUS. Don't you think we should move in that direction, to cut down natural resource subsidies?

Mr. FREEDENBERG. I think, clearly, natural resource subsidies are a problem we are going to be confronting increasingly in a number of areas.

Senator BAUCUS. Don't you think we should work to reduce them?

Mr. FREEDENBERG. We should work to reduce subsidies.

Senator BAUCUS. Natural resource subsidies?

Mr. FREEDENBERG. And including natural resource subsidies.

Senator BAUCUS. You are a reluctant witness, but thank you, nevertheless.

Thank you.

The CHAIRMAN. I have no other questions, Mr. Freedenberg. Good luck.

Mr. FREEDENBERG. Thank you very much.

The CHAIRMAN. Thank you.

[Whereupon, at 10:14 a.m., the hearing was concluded.]